Supreme Court, U.S.
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No. ———

IN THE

# Supreme Court of the United States

OCTOBER TERM, 1991

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CONTROL ELECTRONICS COMPANY,
INSUL-ART ACOUSTICS CORP.,
JACK LEONARD and HAROLD GOLDSTEIN,
*Petitioners,*

v.

ACOUSTICAL DESIGN, INC.,
*Respondent.*

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**Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit**

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## PETITION FOR A WRIT OF CERTIORARI

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## QUESTIONS PRESENTED

1. Whether the trial court incorrectly held that assignor/estoppel should have precluded the petitioners from challenging the validity of the patent when the petitioners were also licensees and assignors.

2. Whether the trial court erred in refusing to permit the petitioners' expert to testify.

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**Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit**

## PETITION FOR A WRIT OF CERTIORARI

Petitioners request certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit. The caption of the case in this Court contains the names of all the parties.*

## OPINIONS BELOW

The opinion of the Court of Appeals is reported at 932 F.2d 939 (Fed. Cir. 1991) and appears as Appendix A, p. 32. The March 30, 1990 final judgment and permanent injunction of the United States District Court for the Eastern District of New York appears as Appendix B, p. 33.

* Pursuant to Rule 29.1, petitioners inform the Court that there are no parent companies or subsidiaries.

## JURISDICTION

The decision of the United States Court of Appeals for the Federal Circuit was entered on May 1, 1991. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

## ENTRY OF JUDGMENT

Petitioners seek review of the May 1, 1991 entry of judgment by the U.S. Court of Appeals for the Federal Circuit.

## STATEMENT OF THE CASE

This is a patent infringement case coupled with claims of breach of contract and unjust enrichment. A final judgment on the jury verdict and the court's determination of unjust enrichment were entered against the petitioners (the defendants) on March 30, 1990 in the amount of $353,520 for patent infringement, $707,040 in increased damages, $48,038.55 in prejudgment interest on the patent infringement judgment, $429,085 in reasonable attorney fees, $8,656 in contract damages, $25,000 in punitive damages for breach of contract, $3,305.73 as prejudgment interest thereon, $40,587.75 in damages assessed by the Court for unjust enrichment, and $22,422.37 in prejudgment interest thereon.

On May 17, 1977, U.S. Patent 4,024,535 [hereinafter '535] was granted to petitioner Harold Goldstein for a sound generator for a sound masking system. The patent was assigned to respondent Acoustical Design, Inc. [hereinafter ADI] thus making Goldstein an assignor. On January 22, 1980, U.S. Patent 4,185,167 [hereinafter '167] was awarded to respondents Donald R. Cunningham and James E. Sulewsky for a sound masking system. Cunningham and Sulewsky assigned their patent to ADI.

Control Electronics, Inc. [hereinafter "Control"] was the employer of Goldstein. Earlier ADI and petitioner Control had agreed that Control would be the exclusive manufacturer of the "Noise-Mask" product (covered by the '535 patent) and that ADI would have exclusive

rights to market the product. Control and Goldstein (and those in privity with Control) became a licensee of ADI. Goldstein was an employee of the company and later became a substantial shareholder of the company.

ADI and Control maintained the business relationship until late 1985 when a dispute arose between them. ADI terminated the business relationship and Control continued to manufacture a modified product. ADI then sued Control and the other petitioners for patent infringement and breach of contract. There has been no contest or challenge as to privity among the petitioners.

Petitioners challenged the validity of the patents in the trial court. Petitioners sought to call an expert to testify on how patent claims should be drafted taking into account the prior art and where the elements of the claims of the patents at issue in this case were found in prior art. Respondents' objection to the expert testifying was sustained. Thus petitioners were prevented from offering evidence on restricting claims and the subsequent application of these facts *viz.* that infringement will not be found when issued claims are restricted to avoid prior art.

Respondent moved pre-trial for summary judgment raising assignor/estoppel (i.e. that the petitioners were estopped from challenging the validity of the patents.) This motion was denied. The trial court permitted challenge of the validity of the patents at trial *only* if petitioners could show fraud.

At trial the jury did find infringement but did not have the benefit of the petitioners' expert's testimony due to the trial court's preclusion of the testimony. In a post trial proceeding the trial court concluded, petitioners submit incorrectly, that assignor/estoppel precluded the petitioners from challenging the validity or invalidity of the patents.

Petitioners assert two responses for its conclusion that the trial court's finding was in error: 1) in addition to

being an assignor, the petitioners are licensees and this Court, for substantial public policy reasons, has held that licensees can challenge the validity; and 2) that same substantial public policy dictates the conclusion that assignors/licensees should be permitted to challenge the validity of patents.

## BACKGROUND

Since at least the 1940's it has been known that distracting background noises (telephone conversations, machine noise etc.) could be masked (their effects minimized.) The masking was done by a mixture of different frequency sounds where the loudness of each discrete frequency band in the mixture was at an experimentally determined level. This mixture of sounds is referred to as the "sound masking spectrum."

Central systems for sound masking, known as early as 1969, include a single central noise generator, power supply, filter and amplifier, with wiring extending to a plurality of loudspeakers placed above ceiling tiles in an open office plan.

As early as November 1974, a man named Watters obtained a patent which described a self contained sound masking system, similarly consisting of a noise generator, power supply, filter, amplifier and loudspeaker, but with all the components contained in a single enclosure. The Watters patent design also provided for the sound masking system to be mounted in the ceiling (the space above a mineral fiber or glass fiber tile ceiling and below the upper structural ceiling.) The speakers of the Watters patent design were positioned to broadcast a masking sound through the ceiling tiles.

The different sound transmission characteristics of mineral fiber ceiling tiles and glass fiber ceiling tiles were known as early as the 1960's and that both attenuated low to mid frequency sounds but that mineral fiber ceiling tiles attenuated high frequency sound to a greater degree than glass fiber tiles. This difference was taken

into account in generating sound masking spectrum to be broadcast through the tiles by adjusting the generated spectrum to compensate for the attenuating affect of the ceiling tile into the office or occupied space.

The Watters self contained sound masking unit similarly had to have its spectrum adjusted (via an internal variable control accessible through a screw driver slot on the side of the housing) to take into account the particular type of ceiling (mineral fiber v. glass fiber.)

The Watters self contained sound masking unit described in the Watters patent was sold in the United States under the Trademark HUSHER in April of 1974. In early 1975, James E. Sulewsky, while employed by Lewis Goodfriend and Associates, evaluated the Watters self contained sound masking unit.

Sometime thereafter, in May of 1975, Sulewsky and Donald R. Cunningham became the owners and principals of respondent Acoustical Design, Inc., [hereinafter ADI]. Cunningham had, like Sulewsky, been employed at Lewis Goodfriend and Associates. ADI then formed a marketing organization called Sound Sales, Inc.

Later in May 1975, Cunningham and Sulewsky approached Charles Cornick, the president of the Canadian company Radio Speakers of Canada [hereinafter RSC.] The purpose of the contact was to persuade Cornick (and RSC) to develop a self contained sound masking system since neither Cunningham nor Sulewsky had sufficient technical background to do so. (All Sulewsky claims to have developed was the physical container or "can" for the unit.)

ADI's only contact at RSC was Cornick, and Sulewsky testified that he did not know who designed the RSC circuit, stating that it would have been RSC or someone who was not with RSC.

The development of a sound masking unit by RSC was testified to by Douglas Adams, who was the chief en-

gineer of RSC at the time and who reported directly to Cornick. Adam testified that Cornick brought him a HUSHER unit (Watters patented device) in the fall or winter 1974/1975 so that Adams could conduct a technical evaluation of the device. Adams was instructed by Cornick to evaluate the unit and then to produce a similar unit which he did. He also attempted to develop a more economical unit than the HUSHER unit.

The unit produced by Adams was designated the RSC model CP-24 (a CP-25 was also produced but the only difference between the two units was a suspension chain.) The first prototypes were produced in early March 1975 and additional improved prototypes were developed through April 1975.

Three units were shipped to ADI on July 16, 1975 for field testing. The three units were identical to each other and were from the first production run by RSC. RSC was not developing any models or different models of sound masking systems at that time. Later, in October 1975, more units were shipped to ADI from RSC which were sold to an American company.

Also in October 1975, ADI provided their patent attorney, Martin Fleit, with the RSC unit in order to obtain a opinion as to patentability. Subsequently Fleit introduced Sulewsky and Cunningham to petitioner Goldstein. The purpose of the introduction was to ascertain whether petitioner Goldstein and his affiliated company, petitioner Control Electronics, Inc. could manufacture sound masking units similar to the RSC unit.

Sulewsky, in January 1976, gave Goldstein the RSC unit for the purpose of reverse engineering the device and developing a manufacturing price for it. In addition to the RSC unit, Goldstein was provided with a Bill of Materials and a schematic diagram of the electrical circuit for the RSC unit.

Cunningham testified that he did not think there was any design change from the first to the last RSC unit and

that there was no reason to believe that Goldstein was given an RSC unit that was any different from the units RSC shipped to the United States.

Once Goldstein received the RSC unit and schematic, he was able to reverse engineer it in about two weeks.

Although by agreement Goldstein was obligated to assist in the preparation of any patent applications on the unit he produced, he insisted that he was not an inventor but only copied the RSC unit. Fleit acknowledged that on many occasions Goldstein protested that he was not the inventor.

Fleit was a substantial shareholder of Control Electronics, Inc. and he was adamant about applying for a patent as were Cunningham and Sulewsky. Goldstein considered Fleit to be his boss at Control Electronics, Inc. and felt pressure to apply for the patent on the device. Fleit, who had reviewed the RSC product, was not himself in a position to apply for the patent in that he could not supply adequate explanation of how the electronic circuit operated.

On October 21, 1975, Fleit wrote Cunningham with the results of a novelty search that he had performed. In that letter he stated that "[t]here appears to be no impediment to proceeding with the patent application and as soon as I receive the detailed information concerning the circuitry and whatever important mechanical features there are regarding the actual packaging, I will proceed to draft the necessary documents." In an October 22, 1975, letter, Fleit indicated that Cunningham supplied Fleit with "materials concerning the packaging and schematic diagrams."

However, even if an electrical schematic were supplied to Fleit, neither Cunningham nor Sulewsky could supply a detailed explanation of the operation of the circuit as both Cunningham and Sulewsky have repeatedly conceded that neither has a background in electronics and,

at most, have only a rudimentary understanding of basic concepts. No one could explain the detailed operation of the circuits of the RSC unit until Goldstein entered the picture, reverse engineered the RSC unit, and then produced a circuit. Thus the pressure was placed upon Goldstein to secure a patent.

Fleit decided there should be two applications for patents, one for the circuit in which Goldstein was the applicant and one for the sound masking package in which Cunningham and Sulewsky were to be the applicants. As a result of the applications, patents were issued ('535 for the circuit and '167 for the sound masking package.)

It is significant that Cunningham characterized the '167 patent as a "design patent" or a patent on the way the unit looked even though the claims of the '167 included circuit elements. Neither Cunningham nor Sulewsky could identify the *claimed* circuit elements of their '167 patent in the patent drawing, i.e. schematic drawing, except for the loudspeaker.

No attempt was made, during the drafting or the prosecution of the patent, to distinguish the RSC unit or the HUSHER unit. The '167 application was also not distinguished from these units.

Fleit acknowledged a general understanding of the relationship between Goldstein's preparation of the circuit for the '535 patent with what had been done before at RSC, but Fleit, who prepared the patent application, decided not to disclose the RSC work to the Patent and Trademark Office [hereinafter PTO] since he did not consider it to be prior art. This decision was made by Fleit even though he knew (and admitted at trial) that a physical unit could possibly be prior art and that he was aware of that as early as 1975 when he had received the RSC unit from Cunningham. Fleit subsequently drafted two letters in August of 1976 relating respectively to the '167 and '535 patent applications.

Throughout the trial and reexamination proceedings (the trial court did not permit the jury to consider the reexamination proceedings) of the two patents, ADI has admitted that the sole difference between the two patents at issue and the prior art Watters patent is a two position internal switch for presetting at the factory for a sound masking spectrum suitable for broadcast through a mineral fiber ceiling title or for a glass fiber ceiling tile (as well as a stepped attenuator for adjusting volume.) But, the claims of the two patents do not claim a mineral fiber spectrum or a glass fiber spectrum, just spectrums. The petitioners had used an internally mounted two position switch that could be set externally through a hole in the housing unit for either the mineral or glass fiber spectrum. This could be done at the installation site.

Moreover, and of significance, Sulewsky testified that they did not develop the position switch and that RSC suggested the stepped attenuator in May of 1975. The essential elements of claim 4 (the switch) and claim 6 (the stepped attenuator) were *not conceived* by Cunningham, Sulewsky, or Goldstein. Sulewsky also admitted with respect to the RSC unit that the unit Goldstein developed based on the RSC unit, that "[b]asically the spectrums were still the same. Volume control I think was still the same and basically, it was still the same unit."

During trial the petitioner sought to present the testimony of a patent expert for the purpose of presenting evidence on how patent claims should be drafted taking into account the prior art. The witness was also proffered to testify as to where the elements of the claims of the two patents are found in the RSC unit, HUSHER unit, and the Watters patent. The expert's testimony would have been directed at the issue of the validity or lack thereof of the patents at issue.

The respondent objected to the evidence and the objection was sustained. Hence the petitioners were un-

able to present evidence on restricting the claims and denied the subsequent application of law to these facts *viz.* that infringement will not be found when claims are restricted to avoid the prior art.

Special Interrogatories, pursuant to Fed. R. Civ. P. 49, directed generally to validity, infringement, willful infringement and inventorship were submitted to the jury. The jury found, with regard to patent '535, that independent claim 1 and dependent claims 2 and 3 were not infringed whereas dependent claims 4-7 were. The jury further found that claims 1-3 of patent '167 were infringed.

Petitioners' view was that the dependent claims could be infringed without infringing the independent claims if independent claims have to be restricted in view of the prior art. After reading the cases supplied by the petitioners, the court declined to give further Special Interrogatories to jury since the petitioners stipulated that the jury finding was not inconsistent and would not challenge the consistency of it.

The two patents at issue in this case were under reexamination during the trial but this information was kept from the jury. Contrary to the position taken with regard to the petitioners' patent expert's testimony and the resubmission of the Special Interrogatories, the respondents argued in the reexamination that the claims of the patents had to be restricted in view of the prior art in evidence at trial. The claims were then allowed in reexamination only after initial rejection.

The Federal Circuit found, because the petitioner Goldstein was the assignor of the '535 patent, that he and his privies were precluded from contesting the validity of enforceability of the patent. Petitioners challenge this finding and submit that it is inconsistent with this Court's opinion in *Lear, Inc. v. Adkins*, 395 U.S. 655, 89 S.Ct. 1902 (1969.)

## REASONS FOR GRANTING THIS WRIT

In *Scott Paper Company v. Marcalus Co.*, 326 U.S. 249 (1945), this Court held that an assignor of a patent may challenge the validity of that patent. The rationale underlying the Court's opinion was that there exists a strong federal policy in favor of full and free competition.

In *Lear, Inc. v. Adkins*, 395 U.S. 653, 89 S.Ct. 1902 (1969), this Court, in reversing *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 70 S.Ct. 894, 94 L.Ed. 1312 (1950), reaffirmed that strong federal public policy in favor of full and free competition. The Court held that a licenseee, like the assignor in *Scott*, could challenge the validity of a patent in a breach of contract or patent infringement suit.

This case presents a situation in which the lower courts have declined to follow the law and rationale enunciated in *Scott* and the relevant dicta in *Lear*. The Federal Circuit incorrectly stated that the decision in *Scott* is "hardly definite or definitive."

Compounding the problem, and the reason this case should be heard by this Court, is that other circuits have begun to follow the law as stated by the Federal Circuit and which directly contradicts this Court's decision and rationale in *Scott*. As a result, a conflict in the law exists among the Circuits and future similar conflicts are likely to arise.

To the extent that the trial court did permit a challenge of the validity by the petitioners, this ruling denying the petitioners' expert to testify thwarted any potential success in challenging the validity.

## I. THE TRIAL COURT INCORRECTLY HELD THAT ASSIGNOR/ESTOPPEL DOCTRINE PRECLUDED THE PETITIONERS FROM CHALLENGING THE VALIDITY OF THE PATENT WHEN THE PETITIONERS WERE ALSO LICENSEES

In this case, the petitioners were, in essence, denied the right to challenge the validity of the patents that gave rise to the litigation. The trial court concluded that the petitioners, as assignors, were estopped from challenging the validity of the patent absent a showing of fraud.

The doctrine of estoppel has been considered by this Court in a line of cases reaching back into the 19th century. *See, e.g. Kinsman v. Parkhurst*, 18 How. 289, 15 L.Ed. 385 (1856) and *St. Paul Plow Works v. Starling*, 140 U.S. 184, 11 S.Ct. 803, 35 L.Ed. 404 (1891). Estoppel was looked upon with great disfavor in that its effect was to promote monopolies and defeat competition in the marketplace. In 1892, in *Pope Manufacturing Co. v. Gormully*, 144 U.S. 224, 234, 12 S.Ct. 632, 636, 36 L.Ed. 414 (1892) this Court stated

> . . . [i]t is as important to the public that competition should not be repressed by worthless patents, as that the patentee of a really valuable invention should be protected in his monopoly. . . .

*Id.* at 234.

Then, in *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.*, 339 U.S. 827, 70 S.Ct. 894, 94 L.Ed. 1312 (1950), a case with a short life and later reversed, this Court, with admitted little analysis (*see Lear*), departed from the line of cases disapproving of the estoppel theory and held that license estoppel was the "general rule." *Id.* at p. 836. In so holding, the majority had ignored the teachings of the cases that had preceded it on the topic.

Nineteen years later, in 1969, the Court expressly overruled *Hazeltine* in *Lear, Inc. v. Adkins*, 395 U.S. 653,

89 S.Ct. 1902 (1969). But in the intervening years it is noteworthy that *Hazeltine* had little, if any, force.

> During this period [1950-1969], each time a patentee sought to rely upon his estoppel privilege before this Court, the majority created a new exception to permit judicial scrutiny into the validity of the Patent Office's grant. Long before *Hazeltine* was decided, the estoppel doctrine had been so eroded that it could no longer be considered the 'general rule,' but was only to be invoked in an ever narowing set of circumstances.

*Lear, supra* at 664.

In deciding *Lear*, the Court considered and balanced the equities of the situation in which a licensee challenges the validity of a patent. In reviewing the equities, the Court concluded

> [s]urely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an investor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification.

*Lear, supra,* at p. 1911.

That same compelling public policy is present in the case in which, like the one at bar, the party seeking to challenge the validity of the patent is both the licensee and the assignor. There is no sound reason to differentiate between the licensee and the assignor/licensee. The public policy remains the same.

This Court has considered the issue of whether the assignor (not assignor/licensee) of a patent is estopped by virtue of his assignment to defend a suit for infringement of the assigned patent on the ground that the

alleged infringing device is that of a prior art, an expired patent.

In *Scott Paper Company v. Marcalus Co.*, 326 U.S. 249 (1945), a case decided after *Westinghouse Co. v. Formica Co.*, 266 U.S. 342 (1924) and which, for all intents and purposes reversed *Formica*, the assignor of a patent sought to defend the infringement suit by presenting evidence that the alleged infringing device was that of prior art, an expired patent.[1] Like the case at bar, the petitioner in *Scott* relied on the doctrine of estoppel as it applied to the assignor of a patent for value. In holding for the assignor, the Court stated:

> The judgment [for the inventor/assignor] is affirmed for the reason that we find that the application of the doctrine of estoppel as to foreclose the assignor of a patent from asserting the right to make use of the prior art invention of an expired patent, which anticipates that of the assigned patent, is inconsistent with the patent laws which dedicate to public use the invention of an expired patent. The assignor has a complete defense to an action for infringement where the alleged infringing device is that of an expired patent.

*Scott, supra* at 257-8. As in *Lear*, the Court's emphasis is on the need to promote the substantial public policy of competition in the market place and not to allow monopolies, i.e. patents, to exist where they should not.

In some of the Circuits the issue of assignor estoppel has been considered. In *Coastal Dynamics Corporation v. Symbolic Displays, Inc.*, 469 F.2d 79 (9th Cir. 1972), the Court stated,

> [i]t is asserted by Coastal Dynamics that the trial court failed to find either way on its issue of "assignor estoppel."

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[1] *Formica, supra*, "concern[ed] assignment of an invention and an inchoate right to a patent therefor before the granting of it which, after the assignment at the instance of the assignee, ripened into a patent." *Id.* at p. 352.

> We are satisfied that by inference he did rule that the point was without merit and such a result is required by the dicta in *Lear, Incorporated v. Adkins*, 395 U.S. 653, 89 S.Ct. 1905, 23 L.Ed.2d (610) wherein license estoppel is considered. We are not persuaded that assignor estoppel requires any different rule.

*Id.*, at p. 79. *See Contour Chair Lounge Co. v. True-Fit Chair, Inc.*, 648 F. Supp. 704, 715 (E.D. Mo. 1986), *Interconnect Planning Corporation v. Feil*, 543 F.Supp. 610, 613 (S.D.N.Y. 1982), *Nationwide Chemical Corp. v. Wright*, 458 F.Supp. 828 (M.D. Fla. 1976), aff'd 584 F.2d 714 (5th Cir. 1978), *Brand Plastics Company v. Dow Chemical Co.*, 267 F.Supp. 1010 (C.D. Cal. 1967), rev'd in part on other grounds, 475 F.2d 124 (9th Cir. 1973), *cert. denied*, 414 U.S. 1039, 94 S.Ct. 540, 38 L.Ed.2d 330 (1973), *National Welding Equipment Company v. Hammon Precision Equipment Co.*, 165 F.Supp. 788, 119 USPQ 13 (N.D. Cal. 1958), *Marvacon Industries, Inc. v. Thermacon Industries, Inc.*, 209 USPQ 932 (D.N.J. 1980) which recognized that the assignor of a patent may challenge the validity of the patent assigned.

The Federal Circuit in affirming the trial court in this case finds support only in its own decision, *Diamond Scientific v. Ambico*, 848 F.2d 1220, 6 USPQ 2d 2028, *cert. dismissed*, 109 S.Ct. 28, 101 L.Ed.2d 978 (1988). In its opinion, the Federal Circuit, in choosing to ignore this Court's rationale of *Scott* and *Lear* other than to incorrectly suggest that this court "sidestepped" the assignor estoppel issued, stated

> [t]his is the first opportunity presented to this court to examine the doctrine of assignor estoppel. Although the Supreme Court has examined this doctrine or a related doctrine-licensee estoppel-several times this century, its opinions have hardly been definite or definitive.

*Diamond* at p. 1222. Petitioners submit that the Federal Circuit's statement is wrong and secondly that it is bound

not by its own opinion but that of this Court. This Court has held that an assignor can challenge the validity of the patent when the issue is whether the patent has expired. There is no sound reason to hold otherwise when the assignor seeks to challenge the validity of the patent on prior art or other grounds.

The problem that has arisen is that now other courts have cited *Diamond* as the law on assignor estoppel and ignore, like the Federal Circuit, this Court's decision and rationale in *Scott*. *See American Fence Company, Inc. v. MRM Security Systems, Inc.*, 710 F.Supp. 37 (D. Conn. 1989).

In improperly electing to be the "final say" on the law, the Federal Circuit criticized the courts that have adopted this Court's holding in *Scott*:

> [n]one of these courts provided much analysis of the doctrine or the reasons supporting its application in the specific circumstances, preferring instead to view the general rationale of the *Scott Paper* and *Lear* decisions as rejecting any further use of assignor estoppel.

*Diamond, supra* at p. 1223.

With all due respect to the Federal Circuit, petitioners submit that the lower courts must defer to the decisions of this Court, including the sound rationale of those decisions, rather than the Federal Circuit's apparently independent notions of what the law should be.

Petitioner respectfully submits that the lower courts in this case did not apply the correct law in deciding its case and therefore the case should be reversed. Secondly, because of the apparent split in the Circuits, this Court should resolve this issue once and for all to avoid inconsistent decisions. Thirdly, to the extent that there is any confusion as to what the law is, this Court ought to resolve it to avoid recurring problems.

## II. THE TRIAL COURT ERRED IN REFUSING TO PERMIT THE PETITIONERS' EXPERT TO TESTIFY AT TRIAL

Petitioners sought to offer evidence through their expert on how the claims in the patents read on the RSC unit. Sustaining respondent's objection to the testimony of the expert prevented the petitioners from effectively putting on their case that the claims had to be restricted, thereby avoiding infringement.

Lacking the expert's testimony as how the claims are to be drafted to take known prior art into account deprived the petitioners of crucial evidence to prove not only that there was no infringement of the two claims (i.e. the invalidity), but also denied the petitioners the opportunity to prove the inequitable conduct by the respondent.

While the petitioner concedes the decision whether to permit an expert to testify or not is left to the sound discretion of the judge, petitioner submits that in this case that discretion was not properly exercised.

## CONCLUSION

For these reasons, the petition should be granted and the judgment reversed.

Respectfully submitted,

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# APPENDICES

**APPENDIX A**

UNITED STATES COURT OF APPEALS
FEDERAL CIRCUIT

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No. 90-1296

ACOUSTICAL DESIGN, INC.,
*Plaintiff-Appellee,*
v.

CONTROL ELECTRONICS COMPANY, INC.,
INSUL-ART ACOUSTICS CORP., JACK LEONARD,
and HAROLD GOLDSTEIN,
*Defendants-Appellants.*

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May 1, 1991

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William L. Mentlik, Lerner, David, Littenberg, Krumholz & Mentlik, of Westfield, N.J., argued for plaintiff-appellees. With him on the brief were John R. Nelson and Roy H. Wepner.

Robert J. Eichelburg, Scully, Scott, Murphy & Presser, of Garden City, N.Y., argued for defendants-appellants. With him on the brief were William C. Roch and Stephen D. Murphy.

Before RICH, ARCHER and LOURIE, Circuit Judges.

LOURIE, Circuit Judge.

Control Electronics Company, Inc. (Control), Insul-Art Acoustics Corp., Jack Leonard, and Harold Goldstein (collectively appellants) appeal the March 30, 1990, judg-

ment of the United States District Court for the Eastern District of New York, Civ. No. 86-1692, holding appellants liable for infringement of appellee's patents and breach of contract, and enjoining them from further infringement of the patents. We affirm.

## BACKGROUND

On May 17, 1977, U.S. Patent 4,024,535 was granted to Harold Goldstein on a sound generator for a sound masking system. Goldstein assigned the patent to Acoustical Design, Inc. (ADI). U.S. Patent 4,185,167 was granted on January 22, 1980, to Donald R. Cunningham and James E. Sulewsky for a sound masking package. ADI also became the assignee of that patent. The inventions are for the purpose of masking disturbing background noise and permitting alternation between predetermined sound spectra.

ADI and Control had earlier agreed in 1976 that Control would be the exclusive manufacturer of the "NoiseMask" product line, products covered by the two patents, and that ADI would have exclusive rights to market the product line. Control thus became a licensee of ADI. In 1982, ADI and Control further contracted that ADI would serve as Control's non-exclusive sales representative for sound masking devices, ceiling acoustical panels, acoustical banners, baffles, and related products. ADI and Control maintained this business relationship until late 1985, when, as a result of Control's failure to pay ADI commissions allegedly due to ADI under the 1982 agreement, the 1976 and 1982 agreements were terminated by ADI. Control continued to manufacture and sell the same sound masking devices it was previously licensed to manufacture notwithstanding the termination of the agreements.

Accordingly, on May 20, 1986, ADI filed suit for patent infringement and breach of contract in the United States District Court for the Eastern District of New York

against appellants. The latter denied infringement and claimed that ADI's patents were invalid for lack of novelty, obviousness, and incorrect inventorship. ADI moved for summary judgment as to the '535 patent based on the doctrine of assignor estoppel, on the theory that Goldstein, who was a defendant, principal of the corporate defendants, and in privity with Leonard, was the inventor named in the patent and therefore could not challenge the patent's validity. The district court denied the motion on the ground that a triable issue of fact existed.

In January 1990, the lawsuit was tried for seven days before a jury. Appellants attempted to invalidate the patents on the basis of lack of novelty in view of two items of alleged prior art: U.S. Patent 4,059,726, issued to Watters, and public use of an electrical circuit developed and manufactured by Radio Speakers of Canada, Inc. (the RSC circuit). At the close of all the evidence, appellants did not move for a directed verdict, nor did they object to any instruction to the jury related to an issue now on appeal.

The court submitted to the jury a special verdict form which contained questions relating to the issues in the case. The jury provided answers in appellee's favor to each of these interrogatories. Appellants did not move for judgment notwithstanding the verdict (JNOV) or for a new trial. On March 10th, the court granted appellee's renewed motion for an order finding that the doctrine of assignor estoppel should have precluded appellants from attacking at trial the validity of the '535 patent. The court subsequently entered final judgment for appellee and this appeal followed.

## DISCUSSION

The issue before us is whether this court should vacate and remand for new trial a judgment rendered on a jury verdict when no motions for directed verdict, JNOV, or

new trial were made in the district court, and appellant has not demonstrated prejudicial legal error to have occurred in the conduct of the trial. We answer this question in the negative.

Rule 50(b) of the Federal Rules of Civil Procedure permits a motion for JNOV only when a party has previously moved for a directed verdict. No such motion was made here. When no motions for JNOV or new trial are made in the district court after a jury verdict, prejudicial legal error must be shown to have occurred in the conduct of the trial in order for this court to vacate the judgment of the district court and remand for a new trial. *Railroad Dynamics, Inc. v. A. Stucki Co.*, 727 F.2d 1506, 1511, 220 USPQ 929, 934 (Fed.Cir.), *cert. denied*, 469 U.S. 871, 105 S.Ct. 220, 83 L.Ed.2d 150 (1984). We find no such error.

Appellants argue that the court erred "in not allowing a post-verdict Special interrogatory to the jury that if claim construction would result in invalidity of the claim, the appropriate conclusion is non-infringement." Appellants said they sought this interrogatory to learn whether the jury construed the claims of the patent to avoid the RSC circuit. We find no error in the court's decision.

The form of special verdict that was issued to the jury dealt very clearly with validity and infringement. The court instructed the jury on the law of patent validity and claim construction. Appellants did not object to any of those instructions then and they cannot challenge them here. *See* Fed.R.Civ.P. 51. The jury concluded that the claims in suit are not invalid; thus, appellants did not meet their burden of proving that the RSC circuit was invalidating prior art.

Appellants also argue that the court erred in holding that a dependent claim must be infringed when an independent claim is infringed. The record nowhere demonstrates that the court made this holding. We therefore view this argument to be without merit.

Appellants next argue that the trial court found by implication that the patent claims did not read on the prior art and that this finding is clearly erroneous. The court did not find this fact by implication; the jury answered special interogatories stating that the claims of both patents were not invalid on the basis of lack of novelty. Thus, no implied finding of fact, as argued by appellants, was made by the court.

Appellants further argue that the court erred by preventing appellants' patent expert from testifying as to how claims are to be drafted to avoid prior art, and that the claims in suit read on the prior art. They assert that, without this testimony, appellants could not effectively demonstrate how applicable law would require findings of non-infringement and inequitable conduct by appellee.

Admission of expert testimony is within the discretion of the trial court. *Salem v. United States Lines Co.*, 370 U.S. 31, 35, 82 S.Ct. 1119, 1122, 8 L.Ed.2d 313 (1962). A decision on such a question will not be disturbed unless a court abuses its discretion. *Seattle Box Co. v. Industrial Crating & Packing, Inc.*, 731 F.2d 818, 826, 221 USPQ 568, 573 (Fed. Cir. 1984). We conclude that appellants have not shown an abuse by the district court and thus we will not vacate the decision on this ground. We are unpersuaded that the court erred in holding that testimony concerning the drafting of claims to avoid prior art would not have been of any benefit to the jury.

Appellants argue that the court erred in awarding damages for unjust enrichment based on a contractual transfer of know-how and a trademark to which appellee had no rights. ADI's claim for unjust enrichment was based upon Nek York law, and, on appeal, the scope of review is limited, *Universal City Studios, Inc. v. Nintendo Co., Ltd.*, 797 F.2d 70, 79, 230 USPQ 409, 416 (2d Cir.), *cert. denied*, 479 U.S. 987, 107 S.Ct. 578, 93 L.Ed.2d 581 (1986). "The granting of equitable relief

lies within the sound discretion of the trial court, so long as that discretion is exercised in accordance with the applicable established precedents." *Indyk v. Habib Bank, Ltd.*, 694 F.2d 54, 57 (2d Cir. 1982). Appellants have not shown that the court erred in concluding that the jury had substantial evidence from which it could find that appellants were unjustly enriched under New York law. We thus will not disturb that conclusion.

Appellants also argue that the court erred in awarding treble damages and attorney fees; they assert that they had a good faith belief that ADI's patents were invalid based on the fact that the patent examiner initially rejected ADI's patent applications on reexamination. However, the jury found by clear and convincing evidence that appellant's infringement was willful. Awards of increased damages and attorney fees are within the discretion of the trial court and will not be disturbed absent an abuse of discretion. *Rosemount, Inc. v. Beckman Instruments, Inc.*, 727 F.2d 1540, 1547-48, 221 USPQ 1, 8 (Fed. Cir. 1984).

The district court, in its March 10, 1990, oral decision, concured with the jury's finding of willfulness, clearly rejected appellants' argument of good faith belief in the invalidity of the patents, and concluded that appellants either committed perjury or misled the court. Accordingly, the court trebled appellee's damage award and also awarded attorneys fees. The district court carefully considered the conduct of appellants both before and during the litigation. Appellants concede that they only sought the opinion of general, not patent counsel with regard to validity and infringement of the patents; they have not demonstrated that this procedure led to a good faith belief that the patents were either invalid or not infringed. We find no abuse of discretion by the court. Finally, it is clear that initial rejection by the Patent and Trademark Office of original claims that later were confirmed on reexamination hardly justifies a good faith belief in the invalidity of the claims.

Appellant Goldstein was the assignor of the '535 patent and, under *Diamond Scientific Co. v. Ambico, Inc.*, 848 F.2d 1200, 1226, 6 USPQ2d 2028, 2031 (Fed. Cir.), *cert. dismissed*, 487 U.S. 1265, 109 S.Ct. 28, 101 L.Ed.2d 978 (1988), the court found that appellant and his privies were precluder from contesting the validity or enforceability of the patent. Appellants argue that the district court erred in concluding that testimony concerning the assignment of the '535 patent should have been precluded because they are also licensees under the patent. They assert that, under *Lear, Inc. v. Adkins*, 395 U.S. 653, 670, 89 S.Ct. 1902, 1911, 23 L.Ed.2d 610 (1969), a licensee can contest validity and enforceability.

This argument is not persuasive. That a patent assignor takes back a license does not free him from the fact that he previously sold the patent for value. As the district court concluded, the assignor, in challenging the patent, is still asserting that what he sold is worthless, and the existence of a license back does not alter that fact. This court, in *Diamond Scientific*, distinguished *Lear* by explaining that:

> The public policy favoring allowing a licensee to contest the validity of the patent is not present in the assignment situation. Unlike the licensee, who without *Lear* might be forced to continue to pay for a potentially invalid patent, the assignor who would challenge the patent has already been fully paid for the patent rights.

848 F.2d at 1224, 6 USPQ2d at 2030. We consider an assignor-licensee to be in a different situation from that of an ordinary licensee and view *Diamond Scientific* to be applicable even when there is a subsequest license back to the assignor. Thus, the district court did not err in concluding that such testimony should have been precluded.

We have considered all of appellants' laundry list of arguments and find them all unpersuasive.

## CONCLUSION

Since we conclude that appellants have not demonstrated that prejudicial legal error occurred in the conduct of the trial after having failed to move for JNOV or seek a new trial, we affirm the judgment appealed from.

AFFIRMED.

## APPENDIX B

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

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Civ. 86-1692

JUDGE RAGGI

ACOUSTICAL DESIGN, INC., a New Jersey Corporation,
*Plaintiff,*

-against-

CONTROL ELECTRONICS CO., INC.,
INSUL-ART ACOUSTIC CORPORATION,
JACK LEONARD, and HAROLD GOLDSTEIN,
*Defendants.*

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## FINAL JUDGMENT AND PERMANENT INJUNCTION

THIS ACTION having come on for trial before the Court and a jury, the Honorable Reena Raggi, District Judge presiding, and the issues having been duly tried and the jury having duly rendered its verdict in favor of the plaintiff, Acoustical Design, Inc., as against all of the defendants, jointly and severally, in the amount of $353,520.00 for patent infringement and as against the defendant Control Electronics Co., Inc. in the amount of $8,656.00 for breach of contract and $25,000.00 as punitive damages for breach of contract; and the Court on January 31, 1990 having entered a Partial Judgment and Injunction in accordance with the jury verdict pending resolution of a number of remaining issues; and the defendants having waived any challenges they might have to the consistancy of the jury's verdict after the Court offered to give further instructions on the issue of depends claims, and the Court having considered the sub-

missions and having heard argument of the parties respecting certain post-trial motions made by plaintiff, and having rendered a decision from the bench on March 10, 1990 granting plaintiff's motions for an Order finding that the doctrine of "assignor estoppel" should have precluded Harold Goldstein and such parties in priority with him from attacking at trial the validity of United States Letters Patent No. 4,024,535, and granting plaintiff's requests for an award of damages on its unjust enrichment claim, an award of prejudgment interest on its patent infringement and contract damage awards, and an award of treble damages and attorney fees under 35 U.S.C. § 284 and 285, respectively; and the Court having considered the parties' further submissions respecting the form of final judgment and the amount of reasonable attorney fees and expenses incurred by the plaintiff; and it appearing to the Court that Final Judgment in accordance with the jury verdict and the Court's decision on plaintiff's post-trial motions should be entered;

IT IS HEREBY ORDERED, ADJUDGED and DECREED as follows:

1. United States Letters Patent No. 4,024,535 and United States Letters Patent No. 4,185,167, and each and every claim thereof, are good and valid in law.

2. Plaintiff, Acoustical Design, Inc., is the sole and lawful owner of the entire right, title and interest in and to said Letters Patents Nos. 4,024,535 and 4,185,167, together with the right to sue for and collect damages for infringement thereof, and has been the sole and lawful owner thereof continuously since the issuance of said Letters Patents.

3. Defendants Control Electronics Co., Inc., Insul-Art Acoustic Corporation, Jack Leonard and Harold Goldstein have willfully infringed both of United States Letters Patents Nos. 4,024,535 and 4,185,167.

4. Each of the corporate defendants, Control Electronics Co., Inc., and Insul-Art Acoustic Corporation, as

well as each of the officers, agents, servants, employees, attorneys, privies, subsidiaries, divisions, successor and assigns of each of such corporate defendants, and each of the individual defendants, Jack Leonard and Harold Goldstein, as well as each of the agents, servants, employees, attorneys, privies, and assigns of each of such individual defendants, and all persons and organizations in active concert, participation, or combination with any of the foregoing who receive notice hereof, are hereby permanently enjoined from and after the date herof, and until May 17, 1994, from engaging in any of the following activities:

(a) manufacturing, selling or offering for sale in the United States, or supplying or causing to be supplied in or from the United States to persons outside of the United States, any sound generators for sound masking packages of the type which were found to infringe said United States Letters Patent No. 4,024,535; or

(b) otherwise directly or indirectly infringing any claim of said United States Letters Patent No. 4,024,535, including infringing any claim of said United States Letters Patent No. 4,024,535 by (i) making, using or selling, or causing to be made, used or sold, any device or apparatus within the United States which infringes said United States Letters Patent No. 4,024,535, or (ii) supplying or causing to be supplied, in or from the United States, all or a substantial portion of the components of the patented invention of United States Letters Patent No. 4,024,535 in such manner as to actively induce the combination of such components outside of the United States in a manner which would infringe said United States Letters Patent No. 4,024,535 if such combination occurred within the United States.

5. Each of the corporate defendants, Control Electronics Co., Inc., and Insul-Art Acoustic Corporation, as

well as each of the officers, agents, servants, employees, attorneys, privies, subsidiaries, divisions, successors and assign of each of such corporate defendants, and each of the individual defendants, Jack Leonard and Harold Goldstein, as well as each of the agents, servants, employees, attorneys, privies and assigns of each of such individual defendants, and all persons and organizations in active concert, participation, or combination with any of the foregoing who receive notice hereof, are hereby permanently enjoined from and after the date hereof, and until January 22, 1997, from engaging in any of the following activities:

(a) manufacturing, selling or offering for sale in the United States, or supplying or causing to be supplied in or from the United States to persons outside of the United States, any self-contained sound masking units of the type which were found to infringe said United States Letters Patent No. 4,185,167; or

(b) otherwise directly or indirectly infringing any claim of said United States Letters Patent No. 4,185,167, including infringing any claim of said United States Letters Patent No. 4,185,167 by (i) making, using or selling, or causing to be made, used or sold, any device or apparatus within the United States which infringes said United States Letters Patent No. 4,185,167, or (ii) by supplying or causing to be supplied, in or from the United States, all or a substantial portion of the components of the patented invention of United States Letters Patent No. 4,185,167 in such manner as to actively induce the combination of such components outside of the United States in a manner which would infringe said United States Letters Patent No. 4,185,167 if such combination occurred within the United States.

6. For the reasons set forth in the Court's decision of March 10, 1990, the doctrine of "assignor estoppel"

should have precluded Harold Goldstein and such parties in privity with him from at trial attacking the validity of United States Letters Patent No. 4,024,535.

7. For the reasons set forth in the Court's decision of March 10, 1990, plaintiff is awarded on its unjust enrichment claim damages in the amount of one-half of all royalties received by the corporate defendants, Control Electronics Co., Inc. and/or Insul-Art Acoustic Corporation, from K.R. Moeller Associates, Ltd. of Canada, plus prejudgment interest at the rate of 9% per annum, payable quarterly.

8. Pursuant to the Court's decision of March 10, 1990, plaintiff is awarded prejudgment interest on its patent infringement and contract damage awards, the patent infringement award being presumed to have accrued pro rata on an annual basis as of the last day of each year for the period from January 1, 1986 through December 31, 1989, and the prejudgment interest thereon being calculated on the basis of the 52-week Treasury Bill rate in effect on the last day of each year, compounded annually, and the contract damage award being presumed to have accrued as of January 1, 1986, and the prejudgment interest thereon being calculated at the rate of 9% per annum.

9. For the reasons set forth in the Court's decision of March 10, 1990, the Court finds tihs case to be "exceptional" within the meaning of 35 U.S.C. § 285, and pursuant to the provisions of 35 U.S.C. §§ 284 and 285, respectively, the Court awards plaintiff treble the amount of patent infringement damages found by the jury and further awards plaintiff, as the prevailing party, its reasonable attorney fees and expenses.

10. On plaintiff's patent infringement claim, plaintiff shall recover of the defendants, Control Electronics Co., Inc., Insul-Art Acoustic Corporation, Jack Leonard and Harold Goldstein, jointly and severally, the sum of $1,537,683.55 (which sum represents the total of (a)

$353,520.00 in damages as found by the jury, (b) $707,040.00 in increased damages pursuant to 35 U.S.C. § 284, (c) $48,038.55 in prejudgment interest, and (d) $429,085.00 in reasonable attorney fees under the provisions of 35 U.S.C. § 285).

11. On plaintiff's breach of contract claim, the plaintiff shall recover of the defendant, Control Electronics Co., Inc., the sum of $36,961.73 (which sum represents the total of (a) $8,656.00 in damages as found by the jury, (b) $25,000 in punitive damages as found by the jury, and (c) $3,305.73 in prejudgment interest).

12. On plaintiff's unjust enrichment claim, plaintiff shall recover of defendants, Control Electronics Co., Inc. and Insul-Art Acoustic Corporation, jointly and severally, the sum of $63,010.12 (which sum represents the total of (a) $40,587.75 in damages as assessed by the Court in its decision of March 10, 1990, and (b) $22,422.37 in prejudgment interest).

13. Plaintiff shall recover of the defendants, jointly and severally, any costs of action not included in the award of reasonable attorney fees as provided in paragraph 10 hereof.

Date: March 30, 1990

/s/ Reena Raggi
United States District Judge

## APPENDIX C

## RULES OF PRACTICE

### REVISED RULES OF THE SUPREME COURT OF THE UNITED STATES

(Adopted April 14, 1980; Latest effective date of amendments, August 1, 1984)

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## PART X. DISPOSITION OF CASES

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53. Dismissing Causes

1. Whenever the parties thereto, at any stage of the procedeings, file with the Clerk an agreement in writing htat any cause be dismissed, specifying the terms with respect to costs, and pay to the Clerk any fees that may be due, the Clerk, without further reference to the Court, shall enter an order of dismissal.

2. (a) Whenever an appellant or petitioner in this Court files with the Clerk a motion to dismiss a cause to which he is a party, with proof of service as prescribed by Rule 28, and tenders to the Clerk any fees and costs that may be due, the adverse party, within 15 days after service thereof, may file an objection, limited to the quantum of damages and costs in this Court alleged to be payable, or, in a proper case, to a showing that the moving party does not represent all appellants or petitioners if there are more than one. The Clerk will refuse to receive any objection not so limited.

(b) Where the objection goes to the standing of the moving party to represent the entire side, the party moving for dismissal, within 10 days thereafter, may file a reply, after which time the matter shall be laid before the Court for its determination.

(c) If no objection is filed, or if upon objection going only to the quantum of damages and costs in this Court, the party moving for dismissal, within 10 days thereafter, shall tender the whole of such additional damages and costs demanded, the Clerk, without further reference to the Court shall enter an order of dismissal, if, after objection as to quantum of damages and costs in this Court, the moving party does not respond with such a tender within 10 days, the Clerk shall report the matter to the Court for its determination.

3. No mandate or other process shall issue on a dismissal under this Rule without an order of the Court.

SUPREME COURT OF THE UNITED STATES

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No. 88-322

AMBICO, INC. and CLARENCE JOSEPH WELTER

v.

DIAMOND SCIENTIFIC COMPANY

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Case below, 666 F.Supp. 163; Fed.Cir., 848 F.2d 1220.

Sept. 20, 1988. The petition for writ of certiorari is dismissed pursuant to Rule 53 of this Court.